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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 002970

SIPDIS

TREASURY FOR QUARLES

E.O. 12958: DECL: 04/11/2015
TAGS: EAID EFIN PREL EPET KPRV JO
SUBJECT: NEW FINANCE MINISTER REVIEWS PARLOUS STATE OF GOJ FINANCES

REF: A. RIYADH 2258
¶B. AMMAN 2753

Classified By: Charge d'Affaires David Hale for reason 1.4 (b) and (d)

¶1. (C) SUMMARY: Newly appointed Jordanian Minister of Finance (and former Minister of Planning) Bassem Awadallah told Charge on April 12 that Jordan will likely face a $282-352 million shortfall as a result of higher-than-expected crude oil prices and lower-than-expected grant income. The Minister has a three-year plan to wean Jordan off dependence on grant aid, but it will require extra foreign assistance until it is completed. During his upcoming visit during the IMF/World Bank Spring Meetings, Awadallah will likely press USG interlocutors for further support of Jordan's efforts to obtain bilateral and Paris Club debt relief. END SUMMARY.

¶2. (C) According to Awadallah, higher-than-expected oil prices have created a large hole in Jordan's budget. Jordan has included in its 2005 budget an oil subsidy of JD 310 million ($437 million), calculated at an average annual price of $42 per barrel. At the current world crude price of $54 per barrel, however, Jordan would need to pay a total of JD 450 million ($635 million) in order to maintain the fuel product prices envisioned in the budget. The JD 140 million ($197 million) difference will be difficult to cover given current GOJ revenues.

¶3. (C) The variable price of crude is especially problematic given the form that the GCC grants will take. Awadallah noted that Saudi Arabia had chosen to renew its grant to cover Jordan's expenditures on crude for another year, starting in April 2004. However, it will grant Jordan JD 15.7 million ($22.1 million) per month in cash rather than continue to provide 50,000 barrels per day in free crude as it has over the past two years. (NOTE: This amount tracks with Prince Sultan's statement, reported ref A, that Saudi Arabia would provide Jordan with $270 million in cash.) This grant, given current prices, amounts to no more than half of the past year's Saudi grant; it also does not provide any hedge against the possibility of further rises in the world price of crude. Awadallah did not seem to be aware of a $200 million UAE grant to Jordan mentioned by former Finance Minister Mohammed Abu Hammour in a meeting with Charge earlier this month (ref B).

¶4. (C) Oil is not the only topic giving the Finance Minister heartburn. Awadallah noted that the GOJ's budgeted capital spending of JD 750 million ($1.06 billion) remains largely unfunded by foreign donors. He also alerted Charge to the likelihood that new Prime Minister Adnan Badran would put significant pressure on him to allocate more money for social spending, particularly in the form of wage increases for lower-income government workers, in ordre to counter the popular anger he expects to provoke with planned subsidy cuts (see para. 6 below).

¶5. (C) Jordan's budgetary picture, however, is not entirely bleak. Awadallah noted that internal Ministry of Finance estimates put Jordan's annual revenues for 2005 at JD 150 million ($212 million) more than the figure in Jordan's 2005 budget. He also noted that the growing economy would allow the GOJ to run a slightly larger deficit in absolute figures while maintaining a figure that would not substantially increase Jordan's debt-to-GDP ratio. Nevertheless, Awadallah predicted an overall figure of JD 200-250 million ($282-352 million) in GOJ spending needs that would not be covered by domestic or grant revenues.

¶6. (C) Awadallah told Charge that given the situation of government finances, he plans to seek international support at the soonest possible time. Partly in order to take advantage of the large cluster of decision-makers who will be gathering in Washington for the IMF/World Bank Spring meetings, Awadallah said he planned to depart for the United States on April 15. Awadallah plans to present his plan to wean Jordan completely from foreign grants through a three-year budgetary reform process that would include pension reform and the ending of all subsidies, many of which he said were hidden in the budget. In addition, Jordan would ramp up privatization, bringing the GOJ additional income to retire debt and reducing its expenditures on money-losing government-owned corporations. This plan, he estimated,

would cut JD 450 million ($635 million) in spending from the budget each year. Together with a substantial reduction in debt servicing, the cost of which Awadallah estimated at JD 300-350 million ($ 423-494 million) per year, this would essentially wipe out the need for foreign grant aid to fund anything other than capital spending.

¶7. (C) COMMENT: Awadallah did not give Charge any indication that he expected any further grant aid from the United States. He made a strong push, however, for U.S. assistance in engaging other Paris Club members both for bilateral relief and for a rise in the Paris Club debt swap ceiling. USG interlocutors during the IMF/World Bank Spring meetings should expect a similar pitch. END COMMENT.
HALE